

AMSA AND GSA HOUSEHOLD GOODS AND FREIGHT FORUM

Good Morning and welcome to the Forum.

As you can see from the agenda, this forum is truly an opportunity for all attendees to learn about freight and household goods transportation trends, as well as the important role technology plays in the transportation of freight and household goods.

In my brief presentation this morning I will share with you some household goods transportation trends, but will leave the technology subject to the expert forum presenters, because I'm a bit technologically challenged. Someone once said a computer is like an Old Testament god, with a lot of rules and no mercy, and from my challenged perspective printers consist of three main parts: the case, the jammed paper tray and the blinking red light. Therefore, it's clear I have no business talking about technology. I can only say that technology is important in the transportation community and pay attention to your six year old child or grandchild, because they may know more about technology than you do!

Since I am knowledgeable about the moving and storage industry, I thought I would share with you this morning a few trends and developments in our industry, despite the statement from a physicist who said: *"Predictions are hard, especially about the future"*.

As you know, moving and storage companies actively participate in GSA's Centralized Household Goods Traffic Management Program (CHAMP), FSS Schedule 48 and individual federal agency RFP's. Movers base their rate bids on either base tariff 415-G or 400-N. The industry would prefer to work solely with the CHAMP Program and utilize one base tariff, namely 400-N; however, overriding our preference is the preference of our customers, the federal agencies. Therefore, our industry will continue to demonstrate flexibility in its business relationship with its valued federal agency customers by working with each agency regarding its individual relocation procurement needs, whether its CHAMP, Schedule 48 or an individual contract. However, it is important that whatever procurement vehicle is preferred by a federal agency, it places emphasis on performance and not the lowest rate, because compensatory shipment revenue, together with performance, is the only way to ensure reasonable service for civilian government employees during the peak season. The importance of this will be clearer after I offer a few industry trends.

First, it might be of interest to know which U.S. cities have the most moves. The top cities in order of shipment volume are:

- New York
- Los Angeles
- Chicago
- Washington, DC
- San Francisco
- Phoenix
- Atlanta

Dallas
Philadelphia and Boston

While these cities account for the most moves overall, the list of cities changes somewhat when you focus solely on civilian government moves only. The top cities for civilian government moves are:

Washington, DC
Winchester, VA
Atlanta
Albuquerque
Denver
Los Angeles
Baltimore
Seattle

Only DC, Atlanta and Los Angeles top both lists. Winchester shows up on the list because many State Department shipments are stored in Winchester.

Another interesting trend is the fact that civilian government household goods shipments are getting larger each year, so the cost of moves is not only increasing because movers' costs are increasing, but because more personal effects are being moved. People just buy and retain more stuff these days, just check your own attic, basement and closets. There are even shows on cable TV devoted to how to deal with clutter. In 1990 the average government employee's shipment weighed 7,767 lbs., in 2003 the average shipment weight was 8,737 lbs., an

increase of almost 1,000 lbs. Now don't get me wrong, movers don't mind the extra weight and resulting revenue. That's why the industry's trailers are so big. It's not to fit their company logos on the side of the trailer; it's to accommodate "more stuff" being moved.

This brings me to another shipment weight issue: the 18,000 lb. weight allowance. Recently, GSA proposed to change the way the weight allowance is calculated by subtracting 10% of the total weight for packing material, which will result in a slight increase in the 18,000 lbs. allowance. AMSA filed comments supporting this change, and given the average shipment weight increase since 1990, we believe the weight allowance should be increased to at least 19,000 lbs. or simply eliminated in its entirety.

While on the subject of the referenced GSA proceeding, AMSA also submitted comments opposing the proposed reduction in allowable storage-in-transit time from 90 days to 60 days. We also opposed the requirement that the number of temporary storage days must coincide with temporary quarter allowance. Yes, movers get paid more when storage time is longer, but just as civilian government shipments don't all weigh 18,000 lbs., most government shipments are not placed in storage for 90 days. However, we believe that there are circumstances beyond the control of the relocating employee that will periodically require a longer storage period and, therefore, the employee should not be burdened with the additional storage expense or the additional liability-related expense.

One statistic that hasn't changed is the average distance of a government move—it is still a little over 1100 miles. It's been 1100 miles for 20 years.

Now I would like to fast forward a bit and give you a snapshot of how the moving industry has been doing from a shipment volume perspective over the last few years and what we anticipate this summer season. First, let me take you back a few years to 2000, the high water mark for the moving industry as measured by business volume for all sectors of our business, corporate, COD and government shipments. While 2000 was a very good business year, it didn't last long. Midway into 2001 was the beginning of a recession that was accelerated by the events of September 11. Corporate business fell off more than 30%, COD and GSA business remained down, with only military business showing gains. With the continued downturn in business, the industry was forced to cut back its expenses, thereby reducing capacity. Over the next few years COD business held its own due to the robust real estate market and military volume remained steady and more attractive due to higher revenue yields associated with higher rate bids. However, corporate business remained depressed and GSA business remained down. With the economy improving in late 2003 and continuing through 2004, the demand for moving services during the 2004 peak moving season was far greater than the industry's ability to meet the demand, since the industry's service capacity was reduced in 2001, 2002 and 2003 in order for the industry to survive those years.

The industry did the best it could during the 2004 peak season despite severe capacity strains, but customers who received the best service were those whose shipments yielded the best revenue. Military rates were already high enough to attract capacity, COD customers who paid higher rates and corporate and government shipments whose rates were compensatory also attracted capacity.

Customer segments whose rates were marginal got attention, but only after the more attractive shipments were booked. What I'm describing is an environment where the number of moves available was greater than the ability of industry to transport them; therefore, just as in any other service business facing a similar supply and demand situation, the higher priced shipments received more attention from carriers and drivers than the lower priced shipments. We ended 2004 with all sectors of our business, except civilian government business, up over the previous couple of years. Due to government budget constraints, civilian government relocations will likely not increase in the foreseeable future.

During the current non-peak season the industry has been endeavoring to address the service problems it encountered last year by increasing capacity where possible, but it takes profits to reinvest in capacity. With the economy still growing and corporate business on the increase it is reasonable to assume that the demand for moving services in the 2005 peak season will again be

greater than the industry's ability to meet the demand, even with added capacity.

Given the forthcoming high demand this summer, compensatory revenue per shipment will again dictate, to a degree, which shipments receive the industry's attention. Obviously many other factors, such as the time of month, size of shipment, traffic lane, type of customer, etc. dictate price and service levels, but revenue per shipment remains an important factor. My message is simply that rates will continue to rise as a result of the tight industry capacity and high service demand. Freight carrier rates are increasing for the same reason. As indicated, movers are now charging more for their services rather than continuing to offer deeper and deeper discounts. Therefore, if you notice that moving services are costing more than they did a few years ago, it's true. Yes, we are hauling more stuff, so that accounts for some of the increase, but the current transportation supply and demand dictate that the industry requires more revenue to invest in equipment and drivers to increase capacity.

In addition to CHAMPS performance standards, the rates generated through the CHAMP Program have always been competitively reasonable and compensatory, and, as a consequence, federal agencies have received quality service for many years. As a result, federal agencies will continue to enjoy quality service during the coming peak season. Just be mindful this summer of the changing operational environment, the continued need for compensatory revenue, and the need for some service

flexibility as the industry copes with gearing up for the summer season where it will handle 50% of its total business between May 15 and September 30, and where demand will surely outstrip the industry's capacity at various times during the summer.

In closing, I want to make it clear that civilian government moves have always been considered by our industry to be "preferred business", despite the fact that over the last few years, including 2004, our commercial and military business has increased and our civilian government business has decreased.

It is important to keep in mind that all of our customers are now actively competing for our industry's limited capacity. Therefore, while our industry will continue to focus on the relocating needs of each federal agency, the economic needs of our industry must continue to be recognized in order to maintain the kind of successful partnership that federal agencies and the moving industry have forged since the inception of the CHAMP Program over 20 years ago.

It's been an honor to have the privilege of addressing you this morning and I'm sure we are all going to learn a lot during the next few days at this Forum.

Thank you.